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2010 INVESTMENT CLIMATE STATEMENT -- CZECH REPUBLIC

Maintaining an open investment climate has been a key element of the Czech Republic's efforts to strengthen its market economy. As a member of the European Union, with an advantageous location in the center of Europe, relatively low cost structure and a well-qualified labor force, the Czech Republic is an attractive destination for foreign investment. Prior to its EU accession in 2004, the Czech government harmonized its laws and regulations with those of the European Union.
While the Czech financial system remained relative healthy, the small, open, export-driven Czech economy suffered from a significant decline in external demand, especially from its main trading partner Germany. As a result, after three years of over six percent growth, real GDP increased only 2.3 percent in 2008 and fell an estimated 4.4 percent in 2009, with most of the decline occurring during the first quarter. GDP growth estimates for 2010 vary from 0.3 percent (by the Ministry of Finance) to 1.4 percent (by the Czech National Bank) with the pace of growth expected to slow throughout 2010, before rebounding in 2011. The average inflation rate fell to 1.0 percent in 2009 (from 6.3 percent in 2008) and is forecast to reach 2.4 percent by the end of 2010. The unemployment rate increased to 9.2 percent by the end of 2009 (8 percent using ILO methodology) and most analysts expect it to continue to rise throughout most of 2010.

The Czech government continues to offer incentives for certain types of foreign direct investment. Legally, foreign and domestic investors are treated equally. Intellectual property rights violations at open-air markets on the borders of Germany and Austria remain a bilateral issue, which the Czech government has begun to address. The U.S. is among the top five investors in the Czech Republic, according to the Czech National Bank (CNB) and investment promotion agency CzechInvest. According to the World Bank's 2010 "Doing Business" report, the Czech Republic is the 74th best place in the world to do business.
Openness to Foreign Investment

The Czech Republic has been a recipient of large amounts of foreign direct investment (FDI), which, together with strong export growth, has helped fuel economic growth, created new jobs, raised wages and increased domestic consumption. GDP per capita in 2008 was 80 percent of the EU average. The Czech Republic's Gross Domestic Product (GDP) increased 6.8 percent in 2006, and 6.1 percent in 2007, and remained strong throughout the first three quarters of 2008, ending the year with growth of 2.3 percent. The rate of economic growth, however, began to fall in the fourth quarter of 2008, mainly due to a significant decline in demand for Czech exports in Western Europe. Real GDP fell precipitously in the first quarter of 2009, before beginning a modest recovery throughout the rest of the year. Nevertheless, real GDP is estimated to have dropped 4.4 percent for all of 2009.

As a small, open export-driven economy, the Czech Republic remains

sensitive to economic downturns in Western Europe, especially in Germany, which is by far the Czech Republic's largest trading partner. Over 80 percent of Czech exports go to fellow EU members with roughly a third going to Germany alone. Estimates for GDP growth in 2010 range from 0.3 to 1.4 percent with most of the growth expected early in the year. The Czech crown has appreciated significantly over the past several years, peaking in July 2008, before depreciating sharply over the next seven months. The crown appreciated throughout much of 2009 reaching early 2008 levels by the end of the year. The volatility of the Crown vis-a-vis the Euro and U.S. Dollar has prompted calls from the business community for the quick adoption of the Euro. Adopting the Euro, however, has not been a priority of recent governments. Moreover, in 2009 the Czech budget deficit ballooned to an estimated 6.6 percent of GDP, well above the three percent hurdle required for Euro adoption. Since it is likely to take at least several years for the Czech government to bring public finances under control, use of the Euro in Czech Republic is not expected prior to 2015, at the earliest.

Inflation spiked in 2008 at 6.3 percent, partly due to a one-off increase in VAT and excise taxes. In 2009, however, average inflation dropped to only 1.0 percent as a result of the economic slowdown. Inflation is forecast to reach 2.4 percent be the end of ¶2010. Unemployment, which was at a historical low of 5 percent in mid-2008, reached 8.6 percent in November 2009 and is estimated to peak at over 10 percent in 2010.

Some unfinished elements in the economic transition, such as the slow pace of legislative and judicial reforms and the uneven enforcement of contracts by the Czech courts, are continuing obstacles to investment, competitiveness, and company restructuring. The Czech government has harmonized its laws with EU legislation and the "acquis communautaire." This effort has involved positive reforms of the judicial system, civil administration, financial markets regulation, intellectual property rights protection, and many other areas important to investors. While there have been many success stories involving American and other foreign investors, a handful have experienced problems, mainly in heavily regulated sectors of the economy, such as the media and aerospace. Investors also complain about difficulties in enforcing contractual rights, including security interests, and the general unpredictability of the legal system. The slow pace of the courts is often compounded by judges' lack of familiarity with commercial or intellectual property cases. Needed reforms of the system for registering companies have been slow in coming, but a new bankruptcy law, which entered into force July 1, 2007, addresses some of these issues, although many judges are still not fully versed in the new law. Concerns about corruption have been voiced by foreign and domestic businesses alike. The World Bank's 2006 Anti-Corruption in Transition report ranked the Czech Republic the most corrupt country in Central Europe. According to the report, the Czech Republic is the only country among the eight new Central European EU member states where the situation had worsened in the preceding years. The U.S. Mission in Prague held conferences on transparency (Fall 2007) and judicial reform (Summer 2008). A workshop on public corruption will be held in the spring of 2010. Other long term challenges include dealing with a rapidly aging population, an unsustainable pension and health care system, and diversifying the economy away from an over-reliance on manufacturing (especially the auto sector) toward a more high-tech, services-based, knowledge economy.

Measure	Year	Index	Rank
TI Corruption Index	2009	4.9	52
Heritage Economic Freedom	2009	69.4	37
World Bank Doing Business	2010	---	74

The right-of-center, pro-business Civic Democrats (ODS) won the greatest number of votes during parliamentary elections in June 2006, but no single party emerged with a majority. A government coalition consisting of ODS, the Christian Democrats (KDU-CSL) and the Green Party (SZ) won a Parliamentary vote of confidence on January 19th, 2007, albeit with a very slim parliamentary majority. In March 2009, however, the government lost a vote of confidence, prompting the establishment in May 2009 of a an apolitical, interim government of technocrats led by former head of the Czech Statistical Office Jan Fischer, and supported by the Czech

Republic's two largest parties, ODS and the left-of-center Social Democrats (CSSD). The interim government is expected to remain in power until a new government can be formed following parliamentary elections scheduled for May 2010. All mainstream political parties welcome foreign investment. International businesses have complained that the relatively weak governments and lack of political continuity in recent years has complicated firms ability to make long-term plans.

a. Organizational Structure of Investments

Foreign investors can, as individuals or business entities, establish sole proprietorships, joint ventures and branch offices in the Czech Republic. In addition, the government recognizes joint-stock companies, limited liability companies, general commercial partnerships, limited commercial partnerships, partnerships limited by shares, and associations.

b. National Treatment

Legally, foreign and domestic investors are treated identically. Both are subject to the same tax codes and laws. The government does not differentiate between foreign investors from different countries, and does not screen foreign investment projects other than in the banking, insurance and defense sectors. Upon accession to the OECD, the Czech government agreed to meet (with a small number of exceptions) the OECD standards for equal treatment of foreign and domestic investors and limitations on special investment incentives. The U.S.-Czech Bilateral Investment Treaty contains specific guarantees of National Treatment and Most Favored Nation treatment for U.S. investors in all areas of the economy other than insurance and real estate. (See the section on the Bilateral Investment Treaty below).

c. Exempted Sectors

According to CzechInvest, the Czech agency tasked with attracting and facilitating FDI and promoting small and mid-sized enterprises, all sectors of the Czech economy are open to foreign investment. Investors in the banking, financial services, insurance and broadcast media sectors must meet certain licensing requirements. Some professions, such as architects, physicians, lawyers and tax advisors, require membership in the appropriate professional chamber. These licensing and membership requirements apply equally to foreign and domestic investors.

d. Privatization

According to the Ministry of Finance, more than eighty percent of the Czech economy is now in private hands after several waves of privatization of formerly state-owned companies since 1989. Privatization programs have been open to foreign investors. In fact, most major state-owned companies have been privatized with foreign participation. The government evaluates all investment offers for state enterprises. Non-transparent and unfair practices have been alleged in connection with some past or planned privatizations.

In 2009, the government began the privatization process for Czech Airlines (CSA). However, CSA's management sold several of its assets during the bidding process, making the tender less attractive to potential bidders. The airline industry's troubles during the global financial crisis also reduced interest in acquiring CSA. The result was a single-bidder tender, which the government ultimately decided to cancel, and CSA's privatization has been postponed indefinitely. The Parliament also voted for legislation prohibiting the privatization of Prague's Ruzyne Airport planned for 2010. Although the President vetoed the legislation, the Parliament is expected to override the President's veto later this year.

Conversion and Transfer Policies

The Czech crown is fully convertible. Imports or exports equal to or exceeding 10,000 Euro (approximately 263,000 Czech crowns or USD 14,300) in cash, travelers' checks, money orders, securities or commodities of high value (such as precious metals or stones) must be declared at the border.

The U.S.-Czech Bilateral Investment Treaty guarantees repatriation of earnings from U.S. investments. A 15 percent withholding tax is charged on repatriation of profits from the Czech Republic. This

tax is reduced under the terms of applicable double taxation treaties. For instance, under the U.S. treaty, the rate is 5 percent if the U.S. qualifying shareholder is a company controlling more than 10 percent of the Czech entity, and 15 percent in other cases. There are no administrative obstacles for removing capital. The law permits convertibility into any currency. The average delay for remitting investment returns meets the international standard of three working days.

Expropriation and Compensation

The Embassy is unaware of any expropriation of foreign investment since 1989. Government acquisition of property is done only for public purposes (similar to property condemnation in the United States for public works projects) in a non-discriminatory manner, and in full compliance with international law. It is unlikely that any investor losing property due to a governmental action would not receive full compensation.

Another issue of concern to foreign investors in the Czech Republic is restitution. In 1990 and 1991, the federal government of Czechoslovakia enacted various laws aimed at compensating those people whose property was confiscated by the communist regime during the period of 1948-1989. Under the restitution laws, persons have the right to claim compensation for property taken from them by the communist government. Most claims for restitution of non-agricultural property had to be filed by October 31, 1991, and agricultural property by December 1992. There were additional open seasons for claims in 1994 and 1998, but all deadlines for these claims expired on July 8, 1999. In 2000, however, a new law to alleviate some of the property damages during the Holocaust entered into force. It amends the restitution laws allowing the state, subject to certain conditions, to return communal Jewish property, private works of art and land illegally seized by the Nazis to entitled Jewish communities and individuals. While the deadline for claims for land expired in 2001, the claims for art can be filed indefinitely.

Although deadlines for submitting restitution claims are now officially past (note: Czech court decisions have struck down the deadline as it applies to direct restituents and their heirs), it is nevertheless important that foreigners seeking to invest in the Czech Republic first ensure that they have clear title to all land and property associated with potential projects. The process of tracing the history of property and land acquisition can be complex and time-consuming, but it is necessary to ensure clear title. Title insurance is not yet offered in the Czech Republic. Investors participating in privatization of state-owned companies are protected from restitution claims through a binding contract signed with the government.

Dispute Settlement

The Czech commercial code and civil code are largely based on the German legal system. The commercial code details rules pertaining to legal entities and is analogous to corporate law in the United States. The civil code deals primarily with contractual relationships among parties. When the Czech Republic was formed in 1993, the new Czech government maintained the previous commercial and civil codes. The laws have been extensively amended since then, but gray areas still remain. The judiciary is independent, but decisions may vary from court to court. Commercial disputes, particularly those related to bankruptcy proceedings, can drag on for years, though new bankruptcy legislation, which came into effect July 1, 2007, should speed up the process. A new, streamlined Commercial Registry process took effect on July 1, 2005. While the new legislation is an improvement over the previous system, which placed the registry process entirely in the hands of the courts, companies report that in practice the process is still quite time-consuming.

The new bankruptcy law addresses important structural impediments such as the slow and uneven performance of the courts, weakness of creditors' legal standing, and the lack of provisions for corporate restructuring. According to local legal experts, the new law shortens court proceedings and makes them much more transparent, gives a stronger position to creditors and renders the entire process more efficient. To this end, the new law has been given a more extensive and more accurate structure, the terms it uses have been made more exact, deadlines have been implemented and a number

of crucial decisions have been passed directly to creditors. The Czech Republic ratified the Convention on the Settlement of Investment Disputes between States and Nationals of Other States in ¶1993. The U.S.-Czech Bilateral Investment Treaty provides for international arbitration of investment disputes with the state. The Czech Republic has ratified the New York Convention on the Recognition and Enforcement of Arbitral Awards. As a signatory of the latter convention, it is required to uphold binding arbitration awards in disputes between Czech and foreign parties. However, arbitration of disputes between two Czech corporations outside the Czech Republic is not permitted, even if the owners are foreign. Applications for enforcement of foreign judgments can be made to the Czech courts and will be determined in accordance with a bilateral recognition treaty, if any, or otherwise pursuant to the requirements of Czech law. Judgments rendered in other EU countries are enforceable in accordance with applicable EU regulations.

Investment Incentives

According to current legislation, incentives are offered to foreign and domestic firms that invest in the manufacturing sector. The package for manufacturing projects includes relief from corporate taxes for up to five years, job-creation grants, re-training grants and opportunities to obtain low-cost land. Financial grants for job-creation and/or re-training are provided to those firms operating in regions where the annual unemployment rate exceeds by at least 50 percent the national average. A partial tax incentive is also available for expansion of an existing manufacturing investment. Research and development centers and business service centers in software development, shared services and high-tech repairs can be currently supported through EU structural funds (Potential Program, Innovation Program, and ICT and Business Support Services Program).

The Czech Government currently is considering a new incentives legislative proposal to support research and development and business service centers through corporate tax relief of up to five years (i.e. same as for manufacturing). No new incentive legislation, however, has appeared since 2007. For more information contact CzechInvest, at incentives@czechinvest.org, or www.czechinvest.org.

Right to Private Ownership and Establishment

The right of foreign and domestic private entities to establish and own business enterprises is guaranteed by law in the Czech Republic. Enterprises are permitted to engage in any legal activity with the previously noted limitations in some sensitive sectors. Personal ownership of real estate by non-resident, non-EU foreign individuals is not permitted, but since January 1, 2002, foreign companies registered to do business in the Czech Republic and Czech branches of foreign entities may own real estate, other than agricultural and forest land. As of May 1, 2009 EU nationals can acquire non-agricultural real estate without limitation. U.S. and other non-EU nationals can purchase real property if they comply with temporary residence requirements. Czech legal entities, including 100 percent foreign-owned subsidiaries, may own real estate without any limitations. All foreigners will continue to face limitations on the purchase of agricultural land and forests until at least April 30, 2011, although the Czech Republic may chose to extend this until 2014 under certain circumstances.

Protection of Property Rights

Existing legislation guarantees protection of all forms of property rights, both intellectual and physical. Secured interests in land (mortgages) and in personal property are permitted. Government subsidy programs are making mortgage financing more accessible, and consumers are becoming more used to using both secured and unsecured forms of credit. According to American lawyers in the Czech Republic, enforcing judgments and foreclosing security interests in land and personal property can still be difficult in practice.

Major amendments to the Commercial Code came into force in 2001 that strengthen protection of creditors and minority shareholders. The law includes detailed provisions for mergers and places time limits on decisions by the authorities on registering of companies. New laws on auditing and on accounting were also enacted. These laws include the use of international accounting standards (IAS) for consolidated corporate groups.

The Czech Republic is a signatory to the Bern, Paris, and Universal Copyright Conventions. In 2001, the government ratified the World Intellectual Property Organization (WIPO) Copyright Treaty and the WIPO Treaty on Performances and Phonograms. Domestic legislation protects all intellectual property rights, including patents, copyrights, trademarks, and semiconductor chip layout design. Amendments to the trademark law and the copyright law have brought Czech law into compliance with relevant EU directives and WTO Trade-Related Aspects of Intellectual Property Rights (TRIPS) requirements. Changes to the civil procedure code, effective January 1, 2001, provide for ex parte search and seizure in enforcement actions. The Czech Republic increased copyright protection for literary works from 50 to 70 years, effective December 1, 2000, and boosted the powers of the customs service and the Czech Commercial Inspection to seize counterfeit goods. A 2006 amendment to the Law on Civil Procedure made ex-parte search more accurate, clearer and easier to apply and enforce. The amendment also makes it easier to define and get back losses caused to owners by piracy. The new Criminal Code which came into effect January 1, 2010, increased maximum penalties for trade mark, industrial rights and copyright violations from two to eight years.
Intellectual property rights (IPR) violations at markets on the borders of Germany and Austria are an issue of concern to U.S. companies and the U.S. government. The markets consist primarily of open-air stalls which sell a variety of trademark and copyright-infringing goods such as clothing, cigarettes and CD/DVD recordings. Starting in 2008, the Czech authorities significantly increased the scope and number of raids, resulting in a significant reduction in the amount of pirated goods openly available. Criminal and administrative penalties applied to IPR violators, however, continue to be infrequent, mild and lacking deterrent value. The Czech authorities have also yet to fully apply many of the legal tools available to them to combat IPR piracy, including the revocation of business licenses. USTR elevated the Czech Republic to the Special 301 Watch List in January 2008 due to the extensive violations occurring at the outdoor markets and the limited response from the Czech government. The Embassy will continue to work with U.S. industry and Czech government officials to strengthen enforcement of intellectual property rights.

Transparency of the Regulatory System

Tax, labor, environment, health and safety, and other laws generally do not distort or impede investment. Policy frameworks are consistent with a market economy. All laws and regulations are published before they enter into force. Opportunities for prior consultation on pending regulations exist, and all interested parties, including foreign entities, can participate. A biannual governmental plan of legislative and non-legislative work is available on the Internet, along with information on draft laws and regulations (often only in the Czech language). Comments can be and are made by business associations, consumer groups and other non-governmental organizations, including the American Chamber of Commerce.

However, bureaucracy and unnecessary red tape remain a source of complaints by both domestic and foreign investors. Delays and allegations of corruption are common, especially in government procurement, and are of particular concern to foreign companies operating in the Czech Republic.

A November 2008 OECD peer-review of the Czech Republic confirmed that in content and principle Czech competition policy meets OECD standards. An Act on the Protection of Economic Competition entered into force in 2001, adopting rules consistent with EU competition policy as regards restrictive agreements, abuse of dominant position and merger control.

Efficient Capital Markets and Portfolio Investments

According to the CNB, in 2001 the last state financial institution (non-joint stock companies established prior to 1989) was privatized. The government has more than a 50 percent share of the equity capital or is a controlling shareholder in two banks: The Czech Export Bank and the Czech-Moravian Guarantee and Development Bank. A significant financial crisis in the late 1990s--prompted by poor banking practices throughout that decade--led to a major restructuring of the banking sector and a significant improvement in government oversight. Currently all large domestic banks belong to major European banking groups, are generally extremely conservative and concentrate almost exclusively on the domestic Czech market. As

a result, all Czech banks remained relatively healthy throughout the global financial crisis, making the Czech Republic one of only four OECD countries not to have had to inject capital into the banking system. As of October 31, 2009, the total assets of commercial banks stood at CZK 4.05 trillion (approximately 225 billion), according to the CNB. As of the same date, non-performing loans amounted to 4.28 percent of total credit volume, up from 2.51 percent a year earlier. Foreign investors have access to bank credit on the local market, and credit is generally allocated on market terms. In 2002, the banks for the first time established a mechanism for sharing credit histories of borrowers.

The Czech securities market has been handicapped by a poor reputation generated by several years of lax regulation, fraud and scandals. Although the Prague Stock Exchange (PSE) is small (with only 13 companies listed for stocks), the overall trade volume of stocks reached CZK 463.86 billion (USD 25.2 billion) in 2009 as compared to CZK 852.04 billion (USD 50.1 billion) in 2008, with the average daily trading volume of CZK 1.86 billion (USD 100 million). The PSE index tends to mirror movements in international markets. The PSE index increased by 30.2 percent in 2009.

In March 2007, PSE created the Prague Energy Exchange (PXE)--which has now renamed itself the Power Exchange Central Europe--to trade electricity in the Czech Republic and Slovakia. PXE's goal is to increase liquidity in the electricity market and create a standardized platform for trading energy. PXE completed its first trade in July, 2007 and its trading volume has increased steadily with a total futures market contract value in 2008 of 2.44 Euros (USD 3.5 billion) and a spot market contract value of Euro 7 million (USD 10 million). The PXE energy exchange intends to expand as aggressively as possible in all directions, other than westward.

In 1998 the government created a Securities and Exchange Commission to function as capital market watchdog. The Commission has made important strides in establishing a regulatory framework for Czech capital markets and enforcing new rules. It has employed a large number of new staff. A new securities law was adopted in 2001 to improve regulation of brokers and dealers. Legislation adopted in 2002 gives the SEC more flexibility in issuing guidelines and requiring reporting of information. In 2006, the SEC moved into the Czech National Bank as part of a plan to bring all of the financial regulators under one roof.

Competition from State-Owned Enterprises (SOEs)

Private enterprises are generally allowed to compete with public enterprises under the same terms and conditions with respect to access to markets, credit and other business operations, although there are frequent accusations that large domestic companies--including both SOEs and private firms--use their political clout and connections to gain unfair advantage. State-owned or majority state-owned companies are present in several fields, including the energy, postal service, and transport sectors. The Czech state also owns two small, specialized banks. SOEs do not report directly to Ministries but are managed by a Board of Directors and Supervisory Board that generally include both representatives of the government and private sector. SOEs are required by law to publish an annual report and submit their books to independent audit.

Corporate Social Responsibility

Corporate Social Responsibility is a burgeoning concept in the Czech Republic. Although foreign companies, particularly U.S.-owned businesses, tend to be more active and more vocal about their activities in this area, the trend appears to be spreading slowly to Czech companies as well. CRS Europe and the Czech Business Leaders' Forum encourage their members to engage in CSR activities and to publicize their work in shareholder reports. Since 2005, the Czech Donors Forum has given the prestigious TOP Corporate Giving award each year for highest volume of donations and for corporate giving as a percentage of gross annual profit. In addition, The Czech Environment Ministry has given the annual Health, Safety and Environment Award since 2000 to encourage conservationism and sound environmental practices in the workplace. Still, only very large Czech companies are vocal about their CSR efforts, and CSR is not a major criterion by which Czechs make investment decisions.

Political Violence

The risk of political violence in the Czech Republic is extremely low. There is no history of political violence or terrorism in modern times. Two recent historic political changes--the "Velvet Revolution" which ended the communist era in 1989 and the division of Czechoslovakia into the Czech Republic and Slovakia in 1993--occurred without loss of life or significant violence.

Corruption

Current law makes both giving and receiving bribes criminal acts, regardless of the actor's nationality. Jail sentences have been increased to up to eight years for officials, with stiffer penalties for bribery previously enacted by Parliament. Bribes cannot be deducted from taxes. Law enforcement authorities are responsible for combating corruption. These laws are applied equally to Czech and foreign investors. There are frequent allegations, however, that public officials have at times engaged in corrupt practices with impunity. Political pressure and ineffective police investigative tools contribute to the infrequent prosecution of high-level corruption. Although public figures must disclose the state of their finances each year, disclosure of the origin of financial assets is voluntary. The absence of successful prosecutions for corruption (or exoneration by the courts) has in turn contributed to public disenchantment and concerns over impunity reflected in the 2008 Transparency International (TI) survey of managers in 26 countries, which found that the Czech Republic was 24th in terms of political corruption, finishing ahead of only Mexico and Nigeria.

The Czech Republic ratified the OECD anti-bribery convention in January 2000. According to a July 2009 TI report, there is little or no enforcement of the convention in the Czech Republic, with no cases and only four investigations through 2008. TI listed political influence over enforcement actions, inadequate whistleblower protection, and the lack of criminal liability for legal entities as contributing factors.

While there has been no lack of public accusations and suspicions of bribery, only a few cases have reached the prosecution and conviction stage. Allegations of corruption are most pervasive in connection with public procurement. Common problems with public contracts include unclear ownership of companies bidding on public contracts and a lack of competitive bids. A 2004 government procurement law, required for EU accession, sought to curb illegal activities in this sphere by ensuring that public tenders were not tailor-made for specific businesses. However, according to the TI chapter in the Czech Republic, the law has failed to reach that objective. Their research has shown that more than half of public contracts in the Czech Republic do not comply with the 2004 Public Procurement Act. TI actively conducts public information campaigns and has given numerous broadcast and print media interviews on corruption and bribery cases. Other nongovernmental organizations in the Czech Republic also focus on corruption issues.

Bilateral Investment Agreements

The former government of Czechoslovakia signed a bilateral investment treaty (BIT) with the United States, which came into effect in 1992. The Czech Republic adopted this treaty in 1993, after the split with Slovakia. Amendments to the treaty were approved in 2003 following negotiations involving both the Czechs and the European Commission designed to meet EU concerns about perceived conflicts with the EU acquis communautaire. The Czech government subsequently requested the United States consider further amendments that would affect the BIT's coverage and dispute settlement provisions; bilateral discussions are continuing.

To date, 78 countries have signed and ratified similar agreements with the Czech Republic. Agreements with several other countries are in the process of ratification. The full list of agreements including ratification dates can be found on the Ministry of Finance website:
http://www.mfcr.cz/cps/rde/xchg/mfcr/hs.xsl/ochrana_investic.html

A bilateral U.S.-Czech Convention on Avoidance of Double Taxation has been in force since 1993. In 2007 the U.S. and Czech governments signed a bilateral Totalization Agreement that exempts Americans

working in the CR from paying into both the Czech and U.S. social security systems. The agreement entered into force on Jan. 1, 2009.

OPIC and Other Investment Insurance Programs

Finance programs of the Overseas Private Investment Corporation (OPIC), including investment insurance, have been available in the Czech Republic since 1991. Investors are urged to contact OPIC's offices in Washington directly for up-to-date information regarding availability of services and eligibility. The OPIC Info Line (202) 336-8799 offers general information 24 hours a day. Application forms and detailed information may be obtained from OPIC, 1100 New York Avenue, NW, Washington D.C. 20527. The Czech Republic is a member of the Multilateral Investment Guarantee Agency (MIGA).

Labor

The wide availability in the Czech Republic of educated, relatively low-cost labor on the doorstep of Western Europe has been a major attraction for foreign investors. While the wage gap continues to narrow, the Czech Republic will continue to have far lower labor costs than those in Western Europe for years to come (although labor costs farther to the East will remain even lower, including in the newer EU countries Romania and Bulgaria). Unemployment reached a record low of 5.0 percent in July 2008, and the relatively low level of unemployment throughout 2008 made it increasingly difficult for many businesses to find skilled and experienced workers, especially in Prague and the surrounding region. This was especially true of employees with Western language skills, IT specialists, and engineers. By the end of 2009, however, the unemployment rate had grown to 9.2 percent (roughly 8 percent according to the ILO's methodology) and was expected to continue to increase throughout much of 2010. Unemployment varies significantly depending on the region. Unemployment is lowest in Prague (3.7 percent) and highest in the Ustecky (13.6 percent), Olomouc (12.2 percent) and Moravia-Silesia regions (12.1 percent). Various factors, including rigidities in the labor code on overtime and the housing market, reduce the mobility of Czech workers within the country.

By law, all workers have the right to strike once mediation efforts have been exhausted, with the exception of judges, prosecutors, military, firemen, police and security sources, and workers in sensitive positions (e.g. nuclear power plant, gas and oil pipeline operators, and air-traffic controllers). Significant labor unrest remained relatively rare in 2009, despite significant layoffs precipitated by the economic downturn. Workers in the Czech Republic have the legal right to form and join unions of their own choosing without prior authorization. Currently, about 17 percent of the total labor force is a member of a labor organization. The overall number of union members has fallen sharply since 1991, reflecting the fact that union membership is no longer compulsory. Although union membership has been dropping at a rate of 8 percent per year, the former Social Democrat (CSSD) led government was responsive to labor concerns and passed a new labor code in parliament that is considered by observers to be "labor-friendly." The new labor code entered into force January 1, 2007.

The Ministry of Labor and Social Affairs sets minimum wage standards. The standard workweek is 40 hours. Caps exist for overtime. Workers are assured 30 minutes of paid rest per work day and annual leave of at least four weeks per year.

Foreign-Trade Zones

Czech law permits foreign investors involved in joint ventures to take advantage of commercial or industrial customs-free zones into which goods may be imported and later exported without depositing customs duty. Duties need be paid only in the event that the goods brought into the free zone are introduced into the local economy. The investment incentive package also permits duty-free import of high tech goods and creation of additional foreign-trade zones. Due to EU accession and the investment incentives offered by the government, the advantages of using these free-trade zone are limited and they have waned in popularity.

Foreign Direct Investment

According to the Czech National Bank, the stock of foreign

investment in the Czech Republic from 1993 through 2008 (including reinvestment of profits) totaled USD 122.3 billion.
Germany and the Netherlands are the leading foreign investors in the Czech Republic. At the end of 2008, their stock of investment totaled USD 31.5 billion (25.8 percent of total FDI) and USD 17.7 billion (14.5 percent) respectively, followed by Austria with USD 13.4 billion (11.0 percent), France with USD 7.5 billion (6.1 percent), the United States with USD 6.6 billion (5.4 percent), Switzerland with USD 6.2 billion (5.1 percent) and Belgium with USD 4.4 billion (3.6 percent). Other major investors included the United Kingdom, Sweden and Japan. According to Eurostat, the Czech Republic was ranked third in Central and Eastern Europe in FDI stock in 2007 (58.8 percent of GDP). The inflow of FDI in 2008 reached USD 9.12 billion (or 4.48 percent GDP). According to the Ministry of Industry and Trade, the inflow of FDI for the first three quarters of 2009 fell 60 percent when compared to the same period in 2008, primarily due to the global economic slowdown. Another recent trend has been that the bulk of new U.S. foreign investment has come from companies already well-established in the Czech Republic with very little originating from first-time investors to the country.
The upswing in investment since 1998 is generally attributed to the introduction of investment incentives, as well as the Czech Republic's central location and well-educated and relatively inexpensive labor force.

By sector, from 1993 through 2008 foreign direct investment stock was divided into manufacturing (USD 40.2 billion or 32.9 percent of total FDI), financial services (USD 19.3 billion or 15.8 percent); real estate and business activities (USD 16.6 billion or 13.6 percent); trade and repairs (USD 10.8 billion or 8.8 percent); electricity, gas and water (USD 8.4 billion or 6.9 percent); transportation and telecommunications (USD 6.4 billion or 5.2 percent); construction (USD 1.4 billion or 1.1 percent) and hotels and restaurants (USD 0.8 million or 0.7 percent). The stock of Czech direct investment abroad totaled USD 9.3 billion at the end of ¶2008. The flow of Czech investment abroad was USD 1.9 billion in 2008 alone, with principal destinations of the Netherlands (28.9 percent), Cyprus (13.7 percent), Germany (13.2 percent) and France (7.3 percent)--0.7 percent of 2008 outward Czech investment flows went to the United States.
Some of the largest US investments in million USD:

Procter&Gamble	150
GE Real Estate + Crestyl Group	140
Guardian	70
Tiger Holding Four	45
Honeywell	27.5
Commercial Vehicle Group	27
Donaldson	20.6
Ingersoll Rand	20
GE Aviation	7.8
FEI Company	3.0
JNJ Global Business Services	2.7
Rannoch	2.5
Rockwell Automation	2.0
NovaSoft	0.75
SDE (SW Development Europe)	0.7
Autobaterie	0.5
IBM	(amount not available)
eBay	(amount not available)
Microsoft	(amount not available)
Skype	(amount not available)
OnSemiconductor	(amount not available)

Other Countries:
Significant foreign direct investments (in USD):

Hyundai	Korea	1.2 billion
Toyota/PSA	Japan/France	850 million
Volkswagen	Germany	710 million
Robert Bosch	Germany	361 million
Matsushita	Japan	335 million
Nemak	Mexico	317 million
Denso	Japan	254 million
Daikin	Japan	244 million
Panasonic	Japan	235 million
LG Philips	NL	201 million
DHL	UK	190 million
Siemens	Germany	179 million
Faurecia	France	156 million

Knauf Insulation	Germany	131 million
Tivali	Israel	131 million
Automotive Lighting	Germany	106 million
Kronospan	Cyprus	102 million
Teva	Israel	55.5 million

Sources of data for this report included the Czech Statistical Office, the Czech National Bank, CzechInvest, OECD, IMF and Central European Advisory Group.

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